

Coal Still Has Important Role to Play

As President Obama and others have long recognized, the optimal portfolio for energy production should be composed of a balance of options — each adding its strengths and addressing the shortcomings of its competitors. In this way, each region of the United States, its households, small businesses, and non-profits, can all benefit from the bright future of secure, reliable, and affordable power.

Last year, there were over 1,300 electric generating units powered by coal at some 589 power plants in the United States, with a total generating capacity of some 300,000 megawatts. Through the year 2025, the most recent estimates show that 348 of these units are likely to close in 38 states representing about 15 percent of the total coal fleet. The reasons for these closures should be obvious by now: the industry faces a combination of low natural gas prices and inflexible regulation. Coal represented about half of U.S. power generation in 2008, and is down to just under 40 percent last year.

But coal still has an important role to play in the energy future of the United States and the world. As Tom Fanning, the chief executive officer of the Southern Company, observed, “The United States is the Saudi Arabia of coal. We control 28 percent of the world’s coal reserves. . . . Put simply, an American future without coal is outright unsustainable.” This is for good reason: coal still has many natural advantages as a fuel source, such as ease of transportation, reliability as a baseload energy source, and less complicated infrastructure needs than its alternatives.

The most confounding market force for coal-powered generation may well be the sustained low cost of natural gas. While the shale revolution is arguably the most transformative energy event of our time, recent reports have indicated the most obvi-

ous projects for switching from coal to gas have already been undertaken. Many gas plants are running at near capacity, meaning that additional demand may have to once again be met by reliable coal generation. Further, the regulatory environment for hydraulic fracturing must remain reasonable; environmentalist opposition to both coal and gas production is simply irresponsible, particularly added to the opposition to transmission lines, nuclear, hydropower, and even some solar and wind projects.

Coal’s challenges are not simply a matter of market economics, however. A string of regulations from the Environmental Protection Agency has created substantial uncertainty for coal-powered energy. The mercury and air toxics rule was one of the most expensive in agency history, and for very little in actual benefits for the American public. The administration has decided to attempt to reinstate a byzantine interstate rule despite clear legal and policy arguments to the contrary. And yet to be decided agency positions on carbon emissions under the New Source Performance Standards for new and existing power plants and the status of coal ash, ambient air standards, and water quality issues may well combine to further threaten the future of coal.

The combination of EPA rules targeted at the power sector will reduce prospects for economic recovery, undermine industrial employment, increase energy prices, and reduce electric reliability. As the Institute of Electrical and Electronics Engineers has stated, “A reliable supply of electricity is more than just a convenience, it is a necessity; the global economy and world’s very way of life depends on it.” And ironically, if we really wish to develop new generations of cleaner, greener technology, a strong econom-

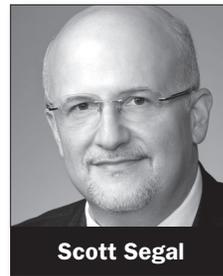
ic recovery is an essential prerequisite for the capital formation necessary to make such transitions a reality.

So what can be done for our economy to meet its economic and social needs while also protecting the environment and appropriately addressing climate change risks? President Obama has stated that the “clean energy transformation of our economy” will necessitate “everything from wind, solar, and geothermal power to safe nuclear energy and cleaner coal.” In order to keep coal in the picture, the following strategy makes sense:

First, focus on new coal technologies. The government and the environmental community should welcome the development of integrated gasification combined cycle technology projects incorporating beneficial uses for captured carbon.

Second, allow for efficiency improvements. Too often the EPA approach to enforcement with its inflexible concept of New Source Review has created a disincentive for the improvement of power plant efficiency that reduces the carbon footprint of each megawatt of electricity generated.

Third, regulate in smarter ways. For large energy-related rules — those with greater than \$1 billion in total economic impact — regulators should have to determine adverse economic effects, including energy end-points such as electricity and motor-fuel price impacts, and address them before the implementation of the rule. Regulators should engage in a robust interagency process that brings together the best and the brightest of public and private input based on quality data and realistic benefit and cost assumptions.



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